

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Lexington	County Sanilac
Fiscal Year End 06/30/06	Opinion Date 08/29/06	Date Audit Report Submitted to State 11/29/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

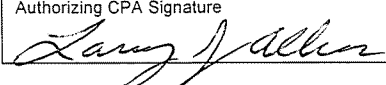
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☒ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Stewart, Beauvais & Whipple PC		Telephone Number (810) 984-3829	
Street Address 1979 Holland Avenue		City Port Huron	State MI
		Zip 48060	
Authorizing CPA Signature 		Printed Name Larry J. Allen	License Number 1101008117

**VILLAGE OF LEXINGTON, MICHIGAN**

**ANNUAL FINANCIAL REPORT  
with Supplementary Information**

**FOR THE YEAR ENDED JUNE 30, 2006**

Stewart,  
Beauvais  
& Whipple P.C.

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CERTIFIED PUBLIC ACCOUNTANTS



**VILLAGE OF LEXINGTON, MICHIGAN**  
**Sanilac County, Michigan**

**TABLE OF CONTENTS**  
**JUNE 30, 2006**

	<u>Page Number</u>
<b>Independent Auditor's Report</b>	1
<b>Basic Financial Statements:</b>	
Government-wide Financial Statements:	
Statement of Net Assets	3
Statement of Activities	4
Fund Financial Statements:	
Balance Sheet – Governmental Funds	6
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets	8
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	9
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	11
Statement of Net Assets – Proprietary Funds	12
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	13
Statement of Cash Flows – Proprietary Funds	14
Notes to the Financial Statements	15
<b>Required Supplementary Information:</b>	
Statement of Revenue, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	35
Detailed Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	36
Statement of Revenues, Expenditures and Changes in Fund Balances Budget and Actual – Municipal Street Fund	38
Statement of Revenues, Expenditures and Changes in Fund Balances Budget and Actual – Capital Equipment Fund	39
<b>Other Supplementary Information:</b>	
Combining Balance Sheet – Nonmajor Governmental Funds	40
Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Nonmajor Governmental Funds	42
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Nonmajor Special Revenue Funds –	
Major Street	44
Local Street	45
County Road	46
Cemetery	47

## INDEPENDENT AUDITOR'S REPORT

To the President and Members  
of the Village Council  
Village of Lexington, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Lexington, Michigan, as of and for the year ended June 30, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Village's management. Our responsibility is to express opinions on these financial statements based on our audit.


We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Village of Lexington, Michigan, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2006, on our consideration of Village of Lexington's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of our testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The Village of Lexington, Michigan has not presented a Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Village of Lexington, Michigan's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
Certified Public Accountants

August 29, 2006

## **BASIC FINANCIAL STATEMENTS**

# VILLAGE OF LEXINGTON, MICHIGAN

## STATEMENT OF NET ASSETS JUNE 30, 2006

	Primary Government			Component Unit (DDA)
	Governmental Activities	Business Type Activities	Total	
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 1,223,218	\$ 319,911	\$ 1,543,129	\$ 168,548
Investments	18,800	-	18,800	-
Receivables (net of allowance)	65,311	142,953	208,264	-
Prepaid expenditures	128,379	55,100	183,479	-
Internal balances	195,287	( 195,287)	-	-
Due from primary government	-	-	-	69,032
Capital assets (net of accumulated depreciation)				
Assets not being depreciated	32,280	153,395	185,675	-
Assets being depreciated	555,100	9,459,508	10,014,608	-
Total Assets	<u>2,218,375</u>	<u>9,935,580</u>	<u>12,153,955</u>	<u>237,580</u>
<b>LIABILITIES:</b>				
Payables and accrued liabilities	162,805	16,212	179,017	15,326
Accrued interest	8,625	36,426	45,051	-
Advances and deposits	-	29,764	29,764	-
Due to other governmental units -				
Local	-	-	-	-
Due to component unit	67,306	1,726	69,032	-
Non-current liabilities				
Due within one year	16,400	236,837	253,237	-
Due in more than one year	182,181	4,260,543	4,442,724	-
Total Liabilities	<u>437,317</u>	<u>4,581,508</u>	<u>5,018,825</u>	<u>15,326</u>
<b>NET ASSETS:</b>				
Investment in capital assets, net of related liabilities	423,180	5,142,862	5,566,042	-
Net Assets				
Restricted	-	-	-	-
Streets	932,777	-	932,777	-
Meter replacement	-	31,090	31,090	-
Unrestricted	<u>425,101</u>	<u>180,120</u>	<u>605,221</u>	<u>222,254</u>
Total Net Assets	<u>\$ 1,781,058</u>	<u>\$ 5,354,072</u>	<u>\$ 7,135,130</u>	<u>\$ 222,254</u>

The accompanying notes are an integral part of these financial statements.

# VILLAGE OF LEXINGTON, MICHIGAN

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2006

Functions/Programs	Expenses	Program Revenues		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government</b>				
Governmental activities:				
General Government	170,518	107,893	-	-
Public Safety	375,765	86,445	-	-
Public Works	233,334	3,797	69,504	-
Recreation and Culture	22,520	1,248	-	-
Other Activities	165,195	-	-	-
Interest on Long-Term debt	8,370	-	-	-
Total governmental activities	<u>975,702</u>	<u>199,383</u>	<u>69,504</u>	<u>-</u>
Business type activities				
Sewer	175,607	207,077	-	-
Water	564,471	529,030	-	-
Mobile Home Park	342,354	717,987	-	-
Interest on Long Term Debt	185,969	-	-	-
Total business type activities	<u>1,268,401</u>	<u>1,454,094</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>2,244,103</u>	<u>1,653,477</u>	<u>69,504</u>	<u>-</u>
<b>Component Units</b>				
Downtown Development Authority	48,256	-	-	-
Total Component Units	<u>48,256</u>	<u>-</u>	<u>-</u>	<u>-</u>
General revenues:				
Property taxes				
Grants and contributions not				
restricted to specific programs				
Unrestricted investment income				
Land use fee (in lieu of property taxes)				
Gain on sale of capital assets				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets at beginning of year				
Net assets at end of year				

The accompanying notes are an integral part of these financial statements.



Net (Expense) Revenue and Change in Net Assets

Primary Government			Component Unit (DDA)
Governmental Activities	Business Type Activities	Total	
( 62,625)	-	( 62,625)	-
( 289,320)	-	( 289,320)	-
( 160,033)	-	( 160,033)	-
( 21,272)	-	( 21,272)	-
( 165,195)	-	( 165,195)	-
( 8,370)	-	( 8,370)	-
<u>( 706,815)</u>	<u>-</u>	<u>( 706,815)</u>	<u>-</u>
-	31,470	31,470	-
-	( 35,441)	( 35,441)	-
-	375,633	375,633	-
-	( 185,969)	( 185,969)	-
<u>-</u>	<u>185,693</u>	<u>185,693</u>	<u>-</u>
<u>( 706,815)</u>	<u>185,693</u>	<u>( 521,122)</u>	<u>-</u>
-	-	-	( 48,256)
-	-	-	( 48,256)
533,739	11,307	545,046	117,241
88,432	-	88,432	-
48,385	10,250	58,635	4,592
100,000	( 100,000)	-	-
9,200	-	9,200	-
110,929	( 91,201)	19,728	( 19,728)
<u>890,685</u>	<u>( 169,644)</u>	<u>721,041</u>	<u>102,105</u>
183,870	16,049	199,919	53,849
<u>1,597,188</u>	<u>5,338,023</u>	<u>6,935,211</u>	<u>168,405</u>
<u>\$ 1,781,058</u>	<u>\$ 5,354,072</u>	<u>\$ 7,135,130</u>	<u>\$ 222,254</u>

# VILLAGE OF LEXINGTON, MICHIGAN

## BALANCE SHEET GOVERNMENTAL FUNDS JUNE 30, 2006

	<u>General</u>	<u>Municipal Street</u>	<u>Capital Equipment</u>
<b>ASSETS</b>			
<b>Assets:</b>			
Cash and cash equivalents	\$ 170,313	\$ 363,554	\$ 136,804
Investments	-	-	-
Receivables -			
Utilities	5,922	-	-
Accounts	5,674	-	-
Due from other governmental units -			
State	26,845	-	-
Local	15,319	-	-
Due from other funds	118,287	-	-
Prepaid expenditures	36,687	1,908	-
	<u>379,047</u>	<u>365,462</u>	<u>136,804</u>
Total Assets	<u>\$ 379,047</u>	<u>\$ 365,462</u>	<u>\$ 136,804</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 86,770	\$ 2,519	\$ -
Accrued liabilities	7,840	-	-
Due to other funds	-	3,928	-
Due to component unit	45,699	18,017	-
	<u>140,309</u>	<u>24,464</u>	<u>-</u>
Total Liabilities	<u>140,309</u>	<u>24,464</u>	<u>-</u>
<b>Fund Balances:</b>			
Reserved	50,983	1,908	-
Unreserved -			
Undesignated -			
General Fund	187,755	-	-
Special Revenue Funds	-	339,090	136,804
Total Equity	<u>238,738</u>	<u>340,998</u>	<u>136,804</u>
Total Liabilities and Fund Equity	<u>\$ 379,047</u>	<u>\$ 365,462</u>	<u>\$ 136,804</u>

The accompanying notes are an integral part of these financial statements.

Other Governmental	Total Governmental
Funds	Funds
\$ 552,547	\$ 1,223,218
18,800	18,800
-	5,922
75	5,749
11,476	38,321
-	15,319
82,723	201,010
89,784	128,379
<u>\$ 755,405</u>	<u>\$ 1,636,718</u>

\$ 73,516	\$ 162,805
238	8,078
1,795	5,723
3,590	67,306
<u>79,139</u>	<u>243,912</u>

90,165	143,056
-	187,755
586,101	1,061,995
<u>676,266</u>	<u>1,392,806</u>
<u>\$ 755,405</u>	<u>\$ 1,636,718</u>

**VILLAGE OF LEXINGTON, MICHIGAN**

**RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR  
GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES  
ON THE STATEMENT OF NET ASSETS  
JUNE 30, 2006**

Fund Balances - total governmental funds	\$	1,392,806
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Amounts reported for governmental activities in the statement of net assets  
are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported in the governmental funds.

Capital assets		1,244,617
Accumulated depreciation	(	657,237)

Long - term liabilities, including bonds payable, are not due and payable  
in the current period and therefore are not reported in the  
governmental funds.

Notes payable	(	164,200)	
Accrued compensated absence	(	34,381)	
Accrued interest	(	547)	( 199,128)

Net Assets of governmental activities	\$	<u>1,781,058</u>
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The notes to the financial statements are an integral part of this statement.

# VILLAGE OF LEXINGTON, MICHIGAN

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2006

	General	Municipal Street	Capital Equipment
<b>Revenues:</b>			
Taxes	\$ 316,144	\$ 118,521	\$ -
Intergovernmental -			
State	88,432	-	-
Charges for services	171,877	-	-
Fines and forfeits	4,063	-	-
Interest and rent	16,326	11,338	2,965
Other	110,721	-	-
Total Revenues	<u>707,563</u>	<u>129,859</u>	<u>2,965</u>
<b>Expenditures:</b>			
Current -			
General Government	137,221	-	-
Public Safety	337,743	-	-
Public Works	44,735	20,012	24,385
Recreation and Cultural	22,361	-	-
Other	165,195	-	-
Debt Service			
Principal	17,400	-	-
Interest	8,963	-	-
Total Expenditures	<u>733,618</u>	<u>20,012</u>	<u>24,385</u>
Excess of revenues over (under) expenditures	<u>( 26,055)</u>	<u>109,847</u>	<u>( 21,420)</u>
<b>Other Financing Sources (Uses):</b>			
Transfers in	-	-	100,000
Transfers out	-	-	-
Transfers from component unit	4,274	6,655	-
Sale of fixed assets	-	-	9,200
Total Other Financing Sources (Uses)	<u>4,274</u>	<u>6,655</u>	<u>109,200</u>
Net change in Fund Balance	<u>( 21,781)</u>	<u>116,502</u>	<u>87,780</u>
Fund Balances at beginning of year	<u>260,519</u>	<u>224,496</u>	<u>49,024</u>
Fund Balances at end of year	<u>\$ 238,738</u>	<u>\$ 340,998</u>	<u>\$ 136,804</u>

The accompanying notes are an integral part of these financial statements.

Other Governmental Funds	Total Governmental Funds
\$ 99,074	\$ 533,739
69,504	157,936
8,925	180,802
-	4,063
17,756	48,385
3,797	114,518
<u>199,056</u>	<u>1,039,443</u>
27,347	164,568
-	337,743
191,519	280,651
-	22,361
-	165,195
-	17,400
-	8,963
<u>218,866</u>	<u>996,881</u>
( 19,810)	42,562
11,792	111,792
( 11,792)	( 11,792)
-	10,929
-	9,200
<u>-</u>	<u>120,129</u>
( 19,810)	162,691
<u>696,076</u>	<u>1,230,115</u>
<u>\$ 676,266</u>	<u>\$ 1,392,806</u>

**VILLAGE OF LEXINGTON, MICHIGAN**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
JUNE 30, 2006**

Net change in fund balances - total governmental funds		\$	162,691
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.			
Capital outlay			78,496
Depreciation expense		(	80,304)
Repayment of the principal of long-term debt consumes the current financial resources of governmental funds, however has no effect on net assets.			
Principal payments on long term liabilities	17,400		
Decrease in accrued interest	593		
Decrease in accrued compensated absences	4,994		22,987
			<hr/>
Change in net assets of governmental activities		\$	<u><u>183,870</u></u>

The notes to the financial statements are an integral part of this statement.

# VILLAGE OF LEXINGTON, MICHIGAN

## STATEMENT OF NET ASSETS PROPRIETARY FUNDS JUNE 30, 2006

	Business Type Activities-Enterprise Funds			
	Sewer	Water	Mobile Home Park	Total
<b>ASSETS:</b>				
<b>Current Assets:</b>				
Cash and cash equivalents	\$ 50,925	\$ -	\$ 268,986	\$ 319,911
Accounts receivable	22,833	70,852	49,268	142,953
Due from other funds	160,556	-	37,146	197,702
Prepaid expenses	390	52,252	2,458	55,100
Total Current Assets	<u>234,704</u>	<u>123,104</u>	<u>357,858</u>	<u>715,666</u>
<b>Property, Plant and Equipment:</b>				
Property, plant and equipment	1,373,941	8,616,283	2,699,948	12,690,172
Less - accumulated depreciation	<u>721,249</u>	<u>1,863,908</u>	<u>628,012</u>	<u>3,213,169</u>
Total Property, Plant and Equipment (net of accumulated depreciation)	<u>652,692</u>	<u>6,752,375</u>	<u>2,071,936</u>	<u>9,477,003</u>
Construction in progress	<u>135,900</u>	<u>-</u>	<u>-</u>	<u>135,900</u>
Total Assets	<u>1,023,296</u>	<u>6,875,479</u>	<u>2,429,794</u>	<u>10,328,569</u>
<b>LIABILITIES:</b>				
<b>Current Liabilities:</b>				
Accounts payable	3,521	4,763	5,116	13,400
Accrued expenses	-	2,148	664	2,812
Accrued interest	3,020	16,396	17,010	36,426
Bonds payable (current portion)	-	60,000	55,000	115,000
Notes payable (current portion)	18,310	43,176	60,351	121,837
Due to other funds	-	392,989	-	392,989
Due to component unit	-	1,726	-	1,726
Deposits payable	-	1,050	28,714	29,764
Total Current Liabilities	<u>24,851</u>	<u>522,248</u>	<u>166,855</u>	<u>713,954</u>
<b>Long-Term Liabilities (less current portions):</b>				
Accrued vacation and sick pay	-	25,336	2,003	27,339
Bonds payable (net of current portion)	-	1,615,000	560,000	2,175,000
Notes payable (net of current portion)	<u>400,039</u>	<u>692,556</u>	<u>965,609</u>	<u>2,058,204</u>
Total Long-Term Liabilities	<u>400,039</u>	<u>2,332,892</u>	<u>1,527,612</u>	<u>4,260,543</u>
Total Liabilities	<u>424,890</u>	<u>2,855,140</u>	<u>1,694,467</u>	<u>4,974,497</u>
<b>NET ASSETS:</b>				
Investment in capital assets, net	234,343	4,341,643	430,976	5,006,962
Restricted	15,545	15,545	-	31,090
Unrestricted -				
Undesignated (Deficit)	<u>348,518</u>	<u>( 336,849)</u>	<u>304,351</u>	<u>316,020</u>
Total Net Assets	<u>\$ 598,406</u>	<u>\$ 4,020,339</u>	<u>\$ 735,327</u>	<u>\$ 5,354,072</u>

The accompanying notes are an integral part of these financial statements.



# VILLAGE OF LEXINGTON, MICHIGAN

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2006

	Business Type Activities-Enterprise Funds			
	Sewer	Water	Mobile Home Park	Total
<b>Operating Revenues:</b>				
Charges for services	\$ 201,453	\$ 502,085	\$ 714,852	\$ 1,418,390
Other	-	2,541	3,135	5,676
Total Operating Revenues	<u>201,453</u>	<u>504,626</u>	<u>717,987</u>	<u>1,424,066</u>
<b>Operating Expenses:</b>				
Salaries	56,380	128,114	42,036	226,530
Fringe benefits	4,553	62,666	19,190	86,409
Administrative fees	29,069	58,029	63,363	150,461
Contracted services	8,851	7,891	15,439	32,181
Insurance	495	15,022	190	15,707
Repairs and maintenance	5,733	7,594	2,707	16,034
Equipment rental	12,426	1,764	872	15,062
Supplies	2,328	25,846	4,580	32,754
Utilities	21,658	35,314	77,127	134,099
Rubbish expenditures	-	-	22,024	22,024
Mobile home park taxes	-	-	5,717	5,717
Miscellaneous	3,438	3,904	10,229	17,571
Depreciation	30,676	218,327	78,880	327,883
Total Operating Expenses	<u>175,607</u>	<u>564,471</u>	<u>342,354</u>	<u>1,082,432</u>
Operating Income (Loss)	<u>25,846</u>	<u>( 59,845)</u>	<u>375,633</u>	<u>341,634</u>
<b>Non-Operating Revenues:</b>				
Interest income	2,474	392	7,384	10,250
Interest expense	( 18,310)	( 78,059)	( 89,600)	( 185,969)
Tap-in fees	1,000	3,000	-	4,000
Meter charge	4,624	4,624	-	9,248
Land use fee	-	-	( 100,000)	( 100,000)
Antenna Leases	-	16,780	-	16,780
Property taxes	-	11,307	-	11,307
Total Non-Operating Revenues	<u>( 10,212)</u>	<u>( 41,956)</u>	<u>( 182,216)</u>	<u>( 234,384)</u>
Net Income (Loss) Before Transfers	15,634	( 101,801)	193,417	107,250
<b>Transfers:</b>				
Transfers from component unit	8,799	-	-	8,799
Transfers out	-	-	( 100,000)	( 100,000)
	<u>8,799</u>	<u>-</u>	<u>( 100,000)</u>	<u>( 91,201)</u>
Net Income (Loss)	24,433	( 101,801)	93,417	16,049
Net Assets at beginning of year	<u>573,973</u>	<u>4,122,140</u>	<u>641,910</u>	<u>5,338,023</u>
Net Assets end of year	<u>\$ 598,406</u>	<u>\$ 4,020,339</u>	<u>\$ 735,327</u>	<u>\$ 5,354,072</u>

The accompanying notes are an integral part of these financial statements.

# VILLAGE OF LEXINGTON, MICHIGAN

## STATEMENT OF CASH FLOWS PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2006

	Business Type Activities-Enterprise Funds			
	Sewer	Water	Mobile Home Park	Total
<b>Cash Flows From Operating Activities:</b>				
Cash receipts from customers	\$ 206,184	\$ 491,669	\$ 690,954	\$ 1,388,807
Cash payments to suppliers	( 80,467)	( 122,334)	( 198,139)	( 400,940)
Cash payments to employees	( 60,933)	( 191,798)	( 66,103)	( 318,834)
Net Cash Provided by Operating Activities	<u>64,784</u>	<u>177,537</u>	<u>426,712</u>	<u>669,033</u>
<b>Cash Flows From Non-capital Financing Activities:</b>				
Land use fee	-	-	( 100,000)	( 100,000)
Transfers from/to other funds	<u>8,799</u>	<u>-</u>	<u>( 100,000)</u>	<u>( 91,201)</u>
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>8,799</u>	<u>-</u>	<u>( 200,000)</u>	<u>( 191,201)</u>
<b>Cash Flows From Capital and Related Financing Activities:</b>				
Principle payments	( 18,309)	( 103,176)	( 110,350)	( 231,835)
Interest payments	( 18,452)	( 78,426)	( 90,714)	( 187,592)
Property taxes	-	11,307	-	11,307
Tap-in fees	1,000	3,000	-	4,000
Meter charge	4,624	4,624	-	9,248
Antenna Leases	-	16,780	-	16,780
Acquisition and construction of capital assets	<u>( 26,730)</u>	<u>-</u>	<u>( 2,000)</u>	<u>( 28,730)</u>
Net Cash Used by Capital and Related Financing Activities	<u>( 57,867)</u>	<u>( 145,891)</u>	<u>( 203,064)</u>	<u>( 406,822)</u>
<b>Cash Flows From Investing Activities:</b>				
Interest earned	<u>2,474</u>	<u>392</u>	<u>7,384</u>	<u>10,250</u>
Net Cash Provided by Investing Activities	<u>2,474</u>	<u>392</u>	<u>7,384</u>	<u>10,250</u>
Net Increase in Cash and Cash Equivalents for the year	18,190	32,038	31,032	81,260
Cash and Cash Equivalents at Beginning of Year	<u>32,735</u>	<u>( 32,038)</u>	<u>237,954</u>	<u>238,651</u>
Cash and Cash Equivalents at End of Year	<u>\$ 50,925</u>	<u>\$ -</u>	<u>\$ 268,986</u>	<u>\$ 319,911</u>
<b>Reconciliation of Net Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b>				
Operating income (loss) for the year	\$ 25,846	\$( 59,845)	\$ 375,633	\$ 341,634
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities -				
Depreciation	30,676	218,327	78,880	327,883
Change in assets and liabilities:				
Receivable	4,731	( 12,957)	4,113	( 4,113)
Due from other funds	-	-	( 31,146)	( 31,146)
Prepays and deposits	58	( 572)	322	( 192)
Accounts payable/accrued expenses	3,473	( 438)	( 79)	2,956
Due to other funds	-	31,146	-	31,146
Due to component units	-	1,726	-	1,726
Deposits	<u>-</u>	<u>150</u>	<u>( 1,011)</u>	<u>( 861)</u>
Net Cash Provided By Operating Activities	<u>\$ 64,784</u>	<u>\$ 177,537</u>	<u>\$ 426,712</u>	<u>\$ 669,033</u>

**VILLAGE OF LEXINGTON, MICHIGAN**  
**Sanilac County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**A. Reporting Entity -**

The Village of Lexington, Michigan, was incorporated as a General Law Village in 1855, under provisions of the constitution and general law of the State of Michigan, with its Charter provided by Act 3 of 1895. The Village is located in Sanilac County. The Village operates under an elected Village Council, which consists of the President and six Council members, with the daily activities operated by the Village Manager, Clerk and Treasurer. The Village provides services to its more than 1,104 residents in many areas including law enforcement, water, sewer, cemetery and parks and recreation.

These financial statements present the Village and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the Village.

**DISCRETELY PRESENTED COMPONENT UNIT -**

**DOWNTOWN DEVELOPMENT AUTHORITY (DDA)-** The DDA is controlled by a nine member Council, who are appointed by the Village Council. The DDA is responsible for the creation of a development and financing plan for the Downtown district or a development area within the district to promote economic growth. The DDA must obtain Village Council approval of all development and financial plans. The annual operating budget and any modification also requires the approval of the Village Council.

The Downtown Development Authority was included in the scope of the audit of the basic financial statements. Separate audited financial statements for this component unit were not issued.

**JOINTLY GOVERNED ORGANIZATION -**

**VILLAGE OF LEXINGTON BUILDING AUTHORITY -** The Authority was created in 1979 to facilitate the financing, construction and operation of a municipal building for the use of both the Village and the Township of Lexington. The Authority operates under a board of commissioners consisting of 3 members appointed by the Village Council. Financing of the Authority, to include debt retirement and operational expenses consists of the Village contributing 80% and the Township 20%. The transactions of the Building Authority are subject to a separate audit and are not included in this report.

# VILLAGE OF LEXINGTON, MICHIGAN

Sanilac County, Michigan

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

#### B. Government-wide and fund financial statements -

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary governments financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

#### C. Measurement focus, basis of accounting, and financial statement presentation-

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year they are levied and due. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Agency funds, a type of fiduciary fund, are unlike all other types of funds, reporting only assets and liabilities, thus agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers all revenues available if they are normally collected within 60 days after the year-end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

**VILLAGE OF LEXINGTON, MICHIGAN**  
**Sanilac County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):**

State shared revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and therefore have been recognized as revenues of the current fiscal period. Property taxes which are levied on July 1, and due on September 14, are recognized as revenue in the year due. Also, only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Village reports the following major governmental funds:

**General Fund** - is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Municipal Street Fund** - is used to account for street operations not provided for under Act 51 of the Public Acts of 1951, as amended.

**Capital Equipment Fund** - is used to account for funds set aside by the Village for the purchase of capital equipment.

The Village reports the following major proprietary funds:

**Sewer Fund** - is used to account for the operations that provide sanitary sewer service to the Village residents.

**Water Fund** - is used to account for the operations that provide water to both Village residents and the Lexington-Worth Townships Utility Authority.

**Mobile Home Park Fund** - is used to account for the operations of a mobile home park owed by the Village.

Additionally, the government reports the following fund type:

**Special Revenue Funds** - are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for the business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

**VILLAGE OF LEXINGTON, MICHIGAN**  
**Sanilac County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):**

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal on-going operations. The principal operating revenues of the Enterprise Funds are charges to customers for sale, rent and services. Operating expenses for Enterprise Funds include costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

**D. Assets, Liabilities and Net Assets or Equity -**

**Deposits and Investments -**

The Village maintains a common checking account for its operation funds. Each participating fund reports its share separately.

The Village's cash and cash equivalents are considered to be cash on hand, demand deposits, savings, certificates of deposit with original maturities of three months or less from the date of acquisition and financial institution pooled funds. The financial institution pool funds have the general characteristics of demand deposit accounts in that the Village may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty.

**Receivables and Payables -**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectible.

**VILLAGE OF LEXINGTON, MICHIGAN**  
**Sanilac County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):**

**Inventories and Prepaid Items -**

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when purchased.

Certain payments to vendors reflect costs applicable to further accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**Property Tax Calendar -**

The Village's property tax is levied each July 1 on the taxable value of property located in the Village as of the preceding December, as adjusted by the March and July Board of Reviews. Taxes are collected through September 14.

**Capital Assets -**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

As permitted by GASB Statement No. 34, the Village has elected not to report governmental infrastructure assets (principally roads and sidewalks) acquired prior to July 1, 2003.

Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives.

<u>Primary Government -</u>	<u>Years</u>
Building/improvements	40
Utility Systems	40
Road Systems/Other	
Infrastructure	8-25
Equipment	25

**VILLAGE OF LEXINGTON, MICHIGAN**  
**Sanilac County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):**

**Compensated Absences -**

In accordance with contracts negotiated with the various employee groups of the Village, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts. All vested vacation and sick leave is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

**Long-Term Obligations -**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets. Bond premiums and discounts, as well as issuance costs, if significant, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Fund Equity -**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Estimates -**

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.



**VILLAGE OF LEXINGTON, MICHIGAN**  
**Sanilac County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:**

**Budgetary Information -**

The General and Special Revenue Funds budgets shown in the financial statements were prepared on a basis consistent with accounting principles generally accepted in the United States of America and on the same modified accrual basis used to reflect actual results.

The Village Manager and Finance Committee prepare the proposed operating budgets for the year commencing the following July 1. The operating budgets include proposed expenditures and resources to finance them.

Prior to June 30, the proposed budgets are presented to the Village Council. The Council holds a public hearing and may add to, subtract from, or change appropriations. The budget is then legally enacted through passage of a Village Council Resolution.

The approved budgets of the Village were adopted for the General and Special Revenue Funds at the function level. These are the enacted levels under the State of Michigan Uniform Budgeting and Accounting Act and the legally adopted levels of the budget. State statutes do not require legally adopted budgets for debt service or capital projects funds.

Budgets are maintained throughout the year at the account level, to provide additional control in preventing over-expenditures at the legally adopted levels. Amendments at the function level for the General and Special Revenue Funds must be approved by the Village Council.

The Village does not employ encumbrance accounting as an extension of formal budgetary integration. All annual appropriations lapse at year-end.

Budget amounts are reported as originally adopted and as final amended by the Village Council, during the year.

Michigan Public Acts 621 of 1978, Section 18(1), as amended, provides that a local government unit shall not incur expenditures in excess of the amount appropriated.

During fiscal year ended June 30, 2006, the Village incurred expenditures in the General and Major Special Revenue Funds, which were in excess of the amounts appropriated as follows:

	Final Amended Budget	Amount Expended	Budget Variance
General Fund			
General Government	\$ 113,057	\$ 137,221	\$ 24,164
Public Works	7,844	44,735	36,891
Recreation and Culture	17,184	22,361	5,177
Municipal Street Fund			
Public Works	16,085	20,012	3,927
Capital Equipment Fund			
Public Works	15,185	24,385	9,200

**Unrestricted Net Assets Deficit -**

The Water Fund had an unrestricted net assets deficit of \$336,849 at June 30, 2006.

**VILLAGE OF LEXINGTON, MICHIGAN**  
**Sanilac County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 3 - DEPOSITS AND INVESTMENTS:**

**Authorized Deposits and Investments -**

Act 217 PA 1982, as amended, authorizes the Village to deposit in certificates of deposit, savings accounts, depository accounts or depository receipts of a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this state under the laws of this state or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be depository of surplus funds belonging to the state under Section 5 or 6 of Act 105 of the Public Acts 1855, as amended, by section 21.145 and 21.146 of the Michigan Compiled Laws.

Michigan Public Act 20 of 1994, as amended, authorizes the Village to invest surplus funds in bonds, securities and other direct obligations of the United States government or an agency or instrumentality of the United States, certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution only if the bank, savings and loan association or credit union is eligible to be a depository of funds belonging to the state, bankers' acceptances of the United States banks, commercial paper rated at the time of purchase within the highest classification established by not less than two standard rating services, which mature not more than 270 days after the date of purchase; mutual funds registered under the investment company Act of 1940, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation; investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, investment pools are organized under the surplus funds investment pool act, 1982 PA 3657, 129.111 to 129.118.

The following is a summary of the financial statement presentation of deposits and investments at June 30, 2006:

	<u>Primary Government</u>	<u>Component Unit</u>	<u>Reporting Entity</u>
Cash on Hand -			
Petty Cash and cash on hand	\$ 400	\$ -	\$ 400
Deposits with Financial Institutions-	-	-	-
Checking/Money Market	1,367,232	168,548	1,535,780
Savings/Certificates of Deposits	<u>18,800</u>	<u>-</u>	<u>18,800</u>
	<u>1,386,432</u>	<u>168,548</u>	<u>1,554,980</u>
Investments -			
Investment Trust Funds	<u>175,497</u>	<u>-</u>	<u>175,497</u>
Grand Total	<u>\$ 1,561,929</u>	<u>\$ 168,548</u>	<u>\$1,730,477</u>
<b>Reconciliation to Statement of Net Assets</b>			
Reported as Cash and Cash Equivalents			
Petty Cash	\$ 400	\$ -	\$ 400
Cash in Checking/Money Market	1,367,232	168,548	1,535,780
Investment Trust Funds	<u>175,497</u>	<u>-</u>	<u>175,497</u>
Total	<u>1,543,129</u>	<u>168,548</u>	<u>1,711,677</u>
Reported as Investments -			
Certificates of Deposit	<u>18,800</u>	<u>-</u>	<u>18,800</u>
	<u>\$ 1,561,929</u>	<u>\$ 168,548</u>	<u>\$1,730,477</u>

**VILLAGE OF LEXINGTON, MICHIGAN**  
**Sanilac County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 3 - DEPOSITS AND INVESTMENTS - (cont'd):**

**Deposits with Financial Institutions –**

The Village has deposits and investments that are maintained for its primary government and component unit.

Michigan Public Acts authorize the units of local government in Michigan to deposit in the accounts of federally insured banks, insured credit unions, and savings and loan associations. All deposits of the Village are at federally insured banks in the State of Michigan in the name of the Village.

***Custodial Credit Risk – Deposits*** – is the risk that in the event of a bank failure, the Village's deposits may not be returned.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

As of June 30, 2006, the carrying amount of the Village deposits is \$1,554,580, and the bank balance is \$1,568,806. Of the bank balance, \$123,291 is covered by Federal Depository Insurance, with the remaining \$1,445,515 exposed to credit risk since it is uninsured and uncollateralized.

The Village believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Village evaluates each financial institution it deposits Village Funds with and assesses the level of risk of each institution. The Village uses only those financial institutions with an acceptable estimated risk level as depositories.

**Investments -**

***Credit Risk – Investments*** – is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. State laws limit the types of investments the Village can purchase.

As of June 30, 2006, the Village of Lexington had \$175,497 invested in The Cadre Liquid Assets Fund – Money Market Series. The fund invests in asset-backed commercial paper, commercial paper, U.S. Government and agency obligations and repurchase agreements. The Cadre Liquid Assets Fund – Money Market Series has the ratings from Standard & Poor's; AAA, A-1+, and A-1.

***Custodial Credit Risk – Investments*** – is the risk that in the event of the failure of the counterparty, the Village will not be able to recover the value of its investments that are in the possession of another party. The Village's investment policy does not address credit risk.

***Interest Rate Risk – Investments*** – is the risk that the value of investments will decrease as a result of a rise in interest rates. The weighted average days to maturity of the Cadre Liquid Assets Fund – Money Market Series ranges from 3 days to 203 days.

**VILLAGE OF LEXINGTON, MICHIGAN**

**Sanilac County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2006**

**NOTE 3 – DEPOSITS AND INVESTMENTS - (cont'd):**

***Concentration of Credit Risk – Investments*** – is the risk of loss attributed to the magnitude of the Village's investment in a single issuer. The Village's investment policy does not address concentration of credit risk.

As of June 30, 2005, the Village has \$169,253 invested in the Cadre Liquid Asset Fund, an external investment pool. The fund was established to mainly invest in government securities. The fund complies with all the requirements of Act 20 of 1994, as amended.

The investment pool has been reported in the financial statements as a cash equivalent because it has the general characteristics of demand deposit accounts in that the Village may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty.

**NOTE 4 - TAXES:**

The Village property taxes are levied each July on the assessment valuation of the property in the Village as of the preceding December 31, as adjusted by the March and July Board of Review.

Assessed values are established annually by the respective Village/Township and are equalized by the State at an estimated percentage of the current market value. Real and personal property for the Village of Lexington for the fiscal year 2006 had a taxable value of \$45,126,636. The millage rates levied by the Village were 7.76280 for General Operating, 3.1050 for Municipal Streets, 0.62080 for Cemetery and 0.29510 for the Water Tower Debt.

The County of Sanilac has established a Tax Collection Revolving Fund whereby all local units of government are paid for the delinquent real property taxes each year.

**NOTE 5 - RECEIVABLES:**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Accounts	\$ 11,671	\$ 142,953
Intergovernmental	<u>53,640</u>	<u>-</u>
	<u>\$ 65,311</u>	<u>\$ 142,953</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not earned. At the end of the current fiscal year there is no deferred revenue.

**VILLAGE OF LEXINGTON, MICHIGAN**  
**Sanilac County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 6 - INTERFUND RECEIVABLE, PAYABLE AND TRANSFERS:**

Interfund receivable and payable balances described as Due From and Due To Other Funds on the Balance Sheet reflect amounts due or owed to a particular fund by another fund of the Village. These amounts include only short-term obligations on open accounts, and not current portions of long-term loans. A summary of these balances by fund type at June 30, 2006, is as follows:

	<u>Due From</u>	<u>Due To</u>
<b>Primary Government:</b>		
<b>Due To/From Other Funds -</b>		
General Fund -		
Enterprise Funds -		
Water Fund	\$ 118,287	\$ -
Special Revenue Funds -		
Major Street Fund -		
Water Fund	77,000	-
County Road Fund	101	-
Municipal Street Fund	1,211	-
Local Street Fund	-	1,694
County Road Fund -		
Major Street Fund	-	101
Local Street Fund -		
Major Street Fund	1,694	-
Municipal Street Fund	2,717	-
Municipal Street Fund -		
Major Street Fund	-	1,211
Local Street Fund	-	2,717
Enterprise Funds -		
Mobile Home Park -		
Water Fund	\$ 37,146	\$ -
Sewer Fund -		
Water Fund	160,556	-
Water Fund -		
General Fund	-	118,287
Major Street Fund	-	77,000
Mobile Home Park	-	37,146
Sewer Fund	-	160,556
	<u>                    </u>	<u>                    </u>
Total Due To/From Other Funds	<u>\$ 398,712</u>	<u>\$ 398,712</u>
<b>Due To/From Primary Government &amp; Component Units -</b>		
Primary Government -		
General Fund	\$ -	\$ 45,699
Cemetery Fund	-	3,590
Municipal Street Fund	-	18,017
Water Fund	-	1,726
Component Unit -		
Downtown Development Authority	<u>69,032</u>	<u>-</u>
Total Due To/From Primary Government & Component Units	<u>\$ 69,032</u>	<u>\$ 69,032</u>

**VILLAGE OF LEXINGTON, MICHIGAN**  
**Sanilac County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 6 - INTERFUND RECEIVABLE, PAYABLE AND TRANSFERS - (cont'd):**

Interfund transfers for the year ended June 30, 2006 were as follows:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Capital Equipment	Mobile Home Park	\$ 100,000
Local Street	Major Street	<u>11,792</u>
		<u>\$ 111,792</u>

Transfers from component units:

General Fund	DDA	\$ 4,274
Municipal Street Fund	DDA	6,655
Sewer Fund	DDA	<u>8,799</u>
		<u>\$ 19,728</u>

**NOTE 7 - CAPITAL ASSETS:**

**Primary Government**

Capital asset activity of the primary government for the year ended June 30, 2006 was as follows:

	<u>July 1, 2005</u>			<u>June 30, 2006</u>
	<u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 28,006	\$ -	\$ -	\$ 28,006
Construction in progress	<u>-</u>	<u>4,274</u>	<u>-</u>	<u>4,274</u>
Total capital assets, not being depreciated	<u>28,006</u>	<u>4,274</u>	<u>-</u>	<u>32,280</u>
Capital assets, being depreciated:				
Buildings and improvements	346,026	-	-	346,026
Improvements other than buildings	183,386	49,837	-	233,223
Machinery and equipment	186,734	-	-	186,734
Vehicles	<u>440,694</u>	<u>24,385</u>	<u>18,725</u>	<u>446,354</u>
Total capital assets being depreciated	<u>1,156,840</u>	<u>74,222</u>	<u>18,725</u>	<u>1,212,337</u>
Less accumulated depreciation for:				
Buildings and improvements	244,495	3,916	-	248,411
Improvements other than buildings	38,467	11,197	-	49,664
Machinery and equipment	35,020	29,279	-	64,299
Vehicles	<u>277,676</u>	<u>35,912</u>	<u>18,725</u>	<u>294,863</u>
Total accumulated depreciation	<u>595,658</u>	<u>80,304</u>	<u>18,725</u>	<u>657,237</u>
Total capital assets being depreciated, net	<u>561,182</u>	<u>( 6,082)</u>	<u>-</u>	<u>555,100</u>
Governmental activities capital assets, net	<u>\$ 589,188</u>	<u>\$ ( 1,808)</u>	<u>\$ -</u>	<u>\$ 587,380</u>

**VILLAGE OF LEXINGTON, MICHIGAN**  
**Sanilac County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 7 - CAPITAL ASSETS - (cont'd):**

	July 1, 2005			June 30, 2006
	<u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u>
<b>Business Type Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 17,495	\$ -	\$ -	\$ 17,495
Construction in progress	<u>122,101</u>	<u>13,799</u>	<u>-</u>	<u>135,900</u>
Total capital assets, not being depreciated	<u>139,596</u>	<u>13,799</u>	<u>-</u>	<u>153,395</u>
Capital assets, being depreciated:				
Buildings and improvements	49,889	2,000	-	51,889
Mobile Home Park	2,644,648	-	-	2,644,648
Utility Systems	9,812,812	12,931	-	9,825,743
Machinery and equipment	<u>150,397</u>	<u>-</u>	<u>-</u>	<u>150,397</u>
Total capital assets being depreciated	<u>12,657,746</u>	<u>14,931</u>	<u>-</u>	<u>12,672,677</u>
Less accumulated depreciation for:				
Buildings and improvements	16,026	2,879	-	18,905
Mobile Home Park	525,874	74,468	-	600,342
Utility Systems	2,235,643	242,233	-	2,477,876
Machinery and equipment	<u>107,743</u>	<u>8,303</u>	<u>-</u>	<u>116,046</u>
Total accumulated depreciation	<u>2,885,286</u>	<u>327,883</u>	<u>-</u>	<u>3,213,169</u>
Total capital assets being depreciated, net	<u>9,772,460</u>	<u>( 312,952)</u>	<u>-</u>	<u>9,459,508</u>
Business activities capital assets, net	<u>\$ 9,912,056</u>	<u>\$( 299,153)</u>	<u>\$ -</u>	<u>\$ 9,612,903</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

<b>Governmental activities:</b>	
General government	\$ 10,371
Public Safety	38,550
Public Works	26,950
Recreation and Cultural	<u>4,433</u>
Total depreciation expense-governmental activities	<u>\$ 80,304</u>
<b>Business-type activities:</b>	
Sewer	\$ 30,676
Water	218,327
Mobile Home Park	<u>78,880</u>
Total depreciation expense-business-type activities	<u>\$ 327,883</u>

**VILLAGE OF LEXINGTON, MICHIGAN**  
**Sanilac County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 8 - LONG-TERM LIABILITIES:**

**PRIMARY GOVERNMENT -**

The following is a summary of changes in the long-term liabilities (including current portions) of the Primary Government for the year ended June 30, 2006:

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Due Within One Year
<u>Governmental Activities:</u>					
Governmental Funds -					
Installment purchase	\$ 44,000	\$ -	\$ 11,000	\$ 33,000	\$ 11,442
Capital lease payable	137,600	-	6,400	131,200	6,400
Accrued sick and vacation	39,375	-	4,994	34,381	-
Total Governmental Funds	<u>220,975</u>	<u>-</u>	<u>22,394</u>	<u>198,581</u>	<u>17,842</u>
<u>Business-type Activities:</u>					
2002 Promissory Note (MHP)	1,086,310	-	60,350	1,025,960	60,351
1994 General Obligation Unlimited Tax (Water Tower)	60,000	-	10,000	50,000	10,000
1996 General Obligation Unlimited Tax (Mobile Home Park)	665,000	-	50,000	615,000	55,000
1999 WSS Bonds/Contracts Payable	1,675,000	-	50,000	1,625,000	50,000
2003 Promissory Note (Water)	1,180,157	-	49,485	1,130,672	49,486
Note payable (Water)	35,409	-	12,000	23,409	12,000
Accrued sick and vacation	33,145	-	5,806	27,339	-
Total Business-type Activities	<u>4,735,021</u>	<u>-</u>	<u>237,641</u>	<u>4,497,380</u>	<u>236,837</u>
	<u>\$ 4,955,996</u>	<u>\$ -</u>	<u>\$ 260,035</u>	<u>\$ 4,695,961</u>	<u>\$ 254,679</u>

Significant details regarding outstanding long-term debt (including current portions) are presented as follows:

**Installment Purchase:**

The Village purchased a fire truck on February 1, 1998. Annual payments range from \$10,000 to \$12,000 with interest of 2.5 percent payable semi-annually.

\$ 33,000

	<u>Governmental Activities</u>	
	<u>Installment Purchases</u>	
<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 10,000	\$ 1,442
2008	11,000	901
2009	<u>12,000</u>	<u>309</u>
	<u>\$ 33,000</u>	<u>\$ 2,652</u>



**VILLAGE OF LEXINGTON, MICHIGAN**  
**Sanilac County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 8 - LONG-TERM LIABILITIES - (cont'd):**

**Capital Lease Payable:**

The Village entered into a long-term lease agreement with the Village of Lexington's building authority. See Note 9 for additional information.

\$ 131,200

**Accrued Vacation and Sick Pay:**

In accordance with contracts negotiated with the various employee groups of the Village, individual employees have vested rights upon termination of employment to receive payments for unused vacation and sick leave under formulas and conditions specified in the contracts. The dollar amount of these vested rights has been accrued on the financial statements.

\$ 61,720

**1994 General Obligation Water System Unlimited Tax Bonds:**

The \$130,000 1994 General Obligation Water System Unlimited Tax Bonds, dated March 1, 1994, were issued for construction of a new water storage tank. Annual principal payments range from \$10,000 to \$15,000 through October 1, 2009, with interest ranging from 5.85 to 6.15 percent payable semi-annually.

\$ 50,000

**1996 General Obligation Unlimited Tax Bonds:**

The \$995,000 1996 General Obligation Unlimited Tax Bonds, dated March 1, 1996, were issued for public improvements at the Village's campground and mobile home park. Annual principal payments range from \$50,000 to \$65,000 through October 1, 2015, with interest ranging from 4.60 to 5.35 percent payable semi-annually.

\$ 615,000

**Water Fund Contracts Payable -**

Pursuant to provisions of Act 185, Public Acts of Michigan, 1957, as amended, the Village of Lexington and other applicable municipalities and the County of Sanilac have entered into contracts whereby the Village has agreed to pay the County annual installments to retire the Village's portion of a bond issue, plus interest. In order to pay such amounts to the County, the Village is obligated to the extent necessary, to levy ad valorem taxes without limitation as to the rate or amount on all taxable property. It is the intention of the Village Council to pay the Village's portion of the obligation from tax levies, debt retirement charges and operating revenue.

**VILLAGE OF LEXINGTON, MICHIGAN**  
**Sanilac County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 8 - LONG-TERM LIABILITIES - (cont'd):**

The Village upgraded and made various improvements to its Water system. In order to finance the cost of the improvements the Sanilac County Department of Public Works has participated in the Drinking Water Revolving Fund through which the Department of Environmental Quality Bonds, dated September 30, 1999, have been sold in the amount of \$1,904,339. The Village makes the debt service payments directly to the State of Michigan.

\$ 1,625,000

Year	1994 General Obligation Bond		1996 General Obligation Bond		Drinking Water Revolving Loan	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 10,000	\$ 2,742	\$ 55,000	\$ 30,495	\$ 50,000	\$ 40,000
2008	10,000	2,140	55,000	27,869	50,000	38,750
2009	15,000	1,380	60,000	25,036	55,000	37,438
2010	15,000	461	60,000	22,006	55,000	36,062
2011	-	-	60,000	18,916	55,000	34,688
2012-2016	-	-	325,000	43,454	300,000	151,750
2017-2021	-	-	-	-	335,000	111,938
2022-2026	-	-	-	-	385,000	66,938
2027-2030	-	-	-	-	340,000	17,375
	<u>\$ 50,000</u>	<u>\$ 6,723</u>	<u>\$ 615,000</u>	<u>\$ 167,776</u>	<u>\$1,625,000</u>	<u>\$ 534,939</u>

**SDS and WSS Revenue Bonds Refinanced:**

In August 2002 the Village of Lexington refinanced its 1996 SDS Revenue Bond of \$600,000 and its 1996 WSS Revenue Bond of \$586,000 for constructing additions and improvements to the mobile home park with a promissory note. The principal refinanced was \$1,207,011 at an interest rate of 5.30%, due semi-annually. Principal payments are due annually starting September 1, 2003, in the amount of \$60,350.

\$ 1,025,960

**SDS and WSS Revenue Bonds Refinanced –**

In August 2003 the Village of Lexington refinanced its 1984 SDS Revenue Bond of \$540,000, 1993 A WSS Revenue Bonds of \$95,000 and 1993 B WSS Revenue Bonds of \$755,000 for constructing and improvements to the sewer and water system with a promissory note. The principal refinanced was \$1,229,643 at an interest rate of 4.25%, due semi-annually. Principal payments are due annually starting September 1, 2004, in the amount of \$49,486.

\$ 1,130,672

**VILLAGE OF LEXINGTON, MICHIGAN**  
**Sanilac County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 8 - LONG-TERM LIABILITIES - (cont'd):**

**Water Fund Notes Payable -**

The \$126,000 note payable dated July 16, 1993 was issued for water system improvements; annual principal payments range from \$11,409 to \$12,000 with interest of 5.70 percent payable semi-annually.

\$ 23,409

The annual requirements to amortize long-term liabilities outstanding at June 30, 2006:

<u>Year</u>	<u>2002 Promissory Note</u>		<u>2003 Promissory Note</u>		<u>Note Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 60,351	\$ 52,777	\$ 49,486	\$ 47,511	\$ 12,000	\$ 1,350
2008	60,350	49,578	49,486	45,508	11,409	650
2009	60,351	46,379	49,486	43,260	-	-
2010	60,350	43,181	49,486	41,134	-	-
2011	60,351	39,982	49,486	39,009	-	-
2012-2016	301,753	151,933	49,485	36,983	-	-
2017-2021	301,753	71,968	833,757	468,222	-	-
2022-2026	<u>120,701</u>	<u>6,397</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$1,025,960</u>	<u>\$ 462,195</u>	<u>\$1,130,672</u>	<u>\$ 721,627</u>	<u>\$ 23,409</u>	<u>\$ 2,000</u>

**NOTE 9 - BUILDING AUTHORITY LEASE PAYABLE:**

The Village entered into a lease agreement with the Village of Lexington Building Authority to help finance the payment of debt and maintenance on the building. Upon retirement of the debt, title of the building will transfer to both the Village and the Township of Lexington as tenants in common reflecting an 80%, 20% interest, respectively. In accordance with FASB Statement 13, the building (80%) is recorded in the financial statements of the Village.

Future minimum lease payments of the Village's portion of the debt owed on the building are as follows:

<u>Year Ended</u> <u>June 30,</u>	
2007	\$ 12,960
2008	13,440
2009	13,080
2010	13,120
2011	13,520
2012-2021	<u>119,320</u>
	185,440
Less – interest	( 54,240)
Long-Term Lease Payable	<u>\$ 131,200</u>

**VILLAGE OF LEXINGTON, MICHIGAN**  
**Sanilac County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 9 – BUILDING AUTHORITY LEASE PAYABLE - (cont'd):**

Following is a summary of the Government-Wide Statement of Net Assets and Government-Wide Statement of Activities of the Village of Lexington Building Authority as of and for the fiscal year ended June 30, 2006:

Assets	\$ 232,061
Liabilities	\$ <u>164,773</u>
Net Assets	\$ <u>67,288</u>
Revenues	\$ 45,826
Expenses	( <u>37,838</u> )
Change in Net Assets	\$ <u>7,988</u>

**NOTE 10 - EMPLOYEE PENSION PLAN:**

**Plan Description -**

The Village of Lexington participates in the Municipal Employees Retirement System (MERS), a multiple employer state-wide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefits provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

**Funding Policy -**

The plan adopted by the Village Council requires a 5% member contribution for general employees and 0.0% for managers. The Village is required to contribute at an actuarially determined rate, which is 8.15% for general employees and 14.97% for managers for fiscal 2006. The contribution requirements of plan members and the Village are established and may be amended by the Village, depending on the MERS contribution program adopted by the Village.

**VILLAGE OF LEXINGTON, MICHIGAN**  
**Sanilac County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 10 - EMPLOYEE PENSION PLAN - (cont'd):**

**Annual Pension Costs -**

For fiscal 2006, the Village's annual pension cost of \$67,866 for MERS was equal to the Village's required and actual contributions. The required contribution was determined as part of the December 31, 2000 and 2001 actuarial valuations using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0% (b) projected salary increases of 4.5% per year annually attributable to inflation (c) additional projected salary increases ranging from 0.0% to 4.16% per year, depending on an age related scale to reflect merit, longevity, and promotional salary increases. The actuarial value of MERS assets was determined using techniques on a basis of evaluation method that assumes the funds earn the expected rate of return (8%) and includes an adjustment to reflect market value. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years for positive unfunded liabilities and 10 years for negative unfunded liabilities, with these periods reestablished with each actuarial valuation.

**Three-Year Trend Information**

<u>Fiscal Year Ending,</u>	<u>Annual Pension Costs (APC)</u>	<u>Percentage of APC Contribution</u>	<u>Net Pension Obligation</u>
June 30, 2004	\$ 34,423	100 %	\$ -
June 30, 2005	42,680	100	-
June 30, 2006	67,866	100	-

**Schedule of Funding Progress**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (b)</u>	<u>Unfunded (Overfunded) Accrued Liability (UAAL) (b-a)</u>	<u>Funded Ratio AAL (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a % of Covered Payroll ((b-a)/c)</u>
2003	\$ 643,499	\$ 1,006,698	\$ 363,199	64	\$ 495,791	73 %
2004	732,395	1,234,866	502,471	59	478,298	105
2005	843,329	1,332,026	488,697	63	443,420	110

**NOTE 11 - POST RETIREMENT BENEFITS:**

In addition to the pension benefits described in Note 11, the Village of Lexington provides post-retirement health care to all employees who retire from the Village on or after attaining age 55 with at least 25 years of continuous service. Expenditures for post-retirement health care benefits are recognized on a pay-as-you-go basis. For the fiscal year ended June 30, 2006, these costs amounted to approximately \$25,724 with two eligible participants.

**VILLAGE OF LEXINGTON, MICHIGAN**  
**Sanilac County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 12 - RESERVED FUND BALANCE:**

Fund Balance has been reserved in various governmental funds to indicate the portion of Fund Balance not available but reserved for a specific purpose. The following is a summary of Reserved Fund Balance for all Village funds at June 30, 2006:

Fund Type/Fund	Description	Amount
<b>Primary Government -</b>		
General Fund	Prepaid Expenditures	\$ 36,687
	Metro Authority	<u>14,296</u>
		50,983
Municipal Street Fund	Prepaid Expenditures	1,908
Other Governmental Funds	Prepaid Expenditures	<u>90,165</u>
		<u>\$ 143,056</u>

**NOTE 13 - RESTRICTED NET ASSETS:**

<b>Primary Government –</b>		
Governmental Activities	Metro Authority	\$ 14,296
	Street Funds	
	Municipal Street	344,926
	Major Street	189,191
	Local Street	23,847
	County Road	<u>360,517</u>
		<u>932,777</u>
Business-Type Activities -	Meter Replacement	<u>31,090</u>
Total Governmental Activities		<u>\$ 963,867</u>

## **REQUIRED SUPPLEMENTARY INFORMATION**

# VILLAGE OF LEXINGTON, MICHIGAN

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL - GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
Property taxes	\$ 311,212	\$ 311,212	\$ 316,144	\$ 4,932
Intergovernmental -				
State	86,869	86,869	88,432	1,563
Charges for services	164,722	164,722	171,877	7,155
Fines and forfeits	4,000	4,000	4,063	63
Interest and rents	12,090	12,090	16,326	4,236
Other	116,750	116,750	110,721	( 6,029)
Total Revenues	<u>695,643</u>	<u>695,643</u>	<u>707,563</u>	<u>11,920</u>
<b>Expenditures:</b>				
Current -				
General Government	97,441	113,057	137,221	( 24,164)
Public Safety	359,220	381,467	337,743	43,724
Public Works	7,844	7,844	44,735	( 36,891)
Recreation and Culture	16,184	17,184	22,361	( 5,177)
Other	188,591	175,926	165,195	10,731
Debt Service				
Principal	17,400	17,400	17,400	-
Interest	8,963	8,963	8,963	-
Total Expenditures	<u>695,643</u>	<u>721,841</u>	<u>733,618</u>	<u>( 11,777)</u>
Excess of revenues over (under) expenditures	-	( 26,198)	( 26,055)	143
<b>Other Financing Sources:</b>				
Transfers from component unit	<u>-</u>	<u>-</u>	<u>4,274</u>	<u>4,274</u>
Net change in Fund Balance	-	( 26,198)	( 21,781)	4,417
Fund Balance at beginning of year	<u>260,519</u>	<u>260,519</u>	<u>260,519</u>	<u>-</u>
Fund Balance at end of year	<u><u>\$ 260,519</u></u>	<u><u>\$ 234,321</u></u>	<u><u>\$ 238,738</u></u>	<u><u>\$ 4,417</u></u>



# VILLAGE OF LEXINGTON, MICHIGAN

## DETAILED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL - GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
Property taxes	\$ 311,212	\$ 311,212	\$ 316,144	\$ 4,932
Intergovernmental -				
State	86,869	86,869	88,432	1,563
Charges for services	164,722	164,722	171,877	7,155
Fines and forfeits	4,000	4,000	4,063	63
Interest and rents	12,090	12,090	16,326	4,236
Other	116,750	116,750	110,721	( 6,029)
	<u>695,643</u>	<u>695,643</u>	<u>707,563</u>	<u>11,920</u>
<b>Expenditures:</b>				
General Government -				
Village council	14,257	15,786	13,369	2,417
Village manager	101,481	102,510	137,720	( 35,210)
Village clerk	34,393	42,422	41,730	692
Administrative services	142,511	152,040	139,603	12,437
	<u>292,642</u>	<u>312,758</u>	<u>332,422</u>	<u>( 19,664)</u>
Less: Reimbursement from other funds	<u>( 195,201)</u>	<u>( 199,701)</u>	<u>( 195,201)</u>	<u>( 4,500)</u>
Total General Government	<u>97,441</u>	<u>113,057</u>	<u>137,221</u>	<u>( 24,164)</u>
Public Safety -				
Fire department	117,362	135,359	127,680	7,679
Police department	241,858	246,108	210,063	36,045
Total Public Safety	<u>359,220</u>	<u>381,467</u>	<u>337,743</u>	<u>43,724</u>
Public Works -				
Department of public works	199,010	199,010	208,536	( 9,526)
Less: Reimbursement from other funds	<u>( 191,166)</u>	<u>( 191,166)</u>	<u>( 163,801)</u>	<u>( 27,365)</u>
Total Public Works	<u>7,844</u>	<u>7,844</u>	<u>44,735</u>	<u>( 36,891)</u>

Continued

# VILLAGE OF LEXINGTON, MICHIGAN

## DETAILED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL - GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Recreation and Culture - Parks and recreation	<u>\$ 16,184</u>	<u>\$ 17,184</u>	<u>\$ 22,361</u>	<u>\$( 5,177)</u>
Other - Municipal programs	<u>188,591</u>	<u>175,926</u>	<u>165,195</u>	<u>10,731</u>
Debt Service - Principal	17,400	17,400	17,400	-
Interest	<u>8,963</u>	<u>8,963</u>	<u>8,963</u>	<u>-</u>
	<u>26,363</u>	<u>26,363</u>	<u>26,363</u>	<u>-</u>
Total Expenditures	<u>695,643</u>	<u>721,841</u>	<u>733,618</u>	<u>(11,777)</u>
Excess of revenues over (under) expenditures	<u>-</u>	<u>( 26,198)</u>	<u>( 26,055)</u>	<u>143</u>
<b>Other Financing Sources:</b>				
Transfers from component unit	<u>-</u>	<u>-</u>	<u>4,274</u>	<u>4,274</u>
Net change in Fund Balance	-	( 26,198)	( 21,781)	4,417
Fund Balance at beginning of year	<u>260,519</u>	<u>260,519</u>	<u>260,519</u>	<u>-</u>
Fund Balance at end of year	<u><u>\$ 260,519</u></u>	<u><u>\$ 234,321</u></u>	<u><u>\$ 238,738</u></u>	<u><u>\$ 4,417</u></u>

Concluded

# VILLAGE OF LEXINGTON, MICHIGAN

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL - MUNICIPAL STREET FUND FOR THE YEAR ENDED JUNE 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
Taxes	\$ 122,346	\$ 122,346	\$ 118,522	\$( 3,824)
Interest	3,376	3,376	11,338	7,962
Total Revenues	<u>125,722</u>	<u>125,722</u>	<u>129,860</u>	<u>4,138</u>
<b>Expenditures:</b>				
Public Works -				
Administrative fees	9,430	9,430	13,357	( 3,927)
Other	6,655	6,655	6,655	-
Total Expenditures	<u>16,085</u>	<u>16,085</u>	<u>20,012</u>	<u>( 3,927)</u>
Excess of revenues over expenditures	<u>109,637</u>	<u>109,637</u>	<u>109,848</u>	<u>211</u>
<b>Other Financing Uses:</b>				
Transfers from component unit	-	-	6,655	6,655
Transfers out	(109,637)	( 109,637)	-	109,637
Total Transfers	<u>(109,637)</u>	<u>( 109,637)</u>	<u>6,655</u>	<u>116,292</u>
Net change in Fund Balance	-	-	116,503	116,503
Fund Balance at beginning of year	<u>224,496</u>	<u>224,496</u>	<u>224,496</u>	<u>-</u>
Fund Balance at end of year	<u><u>\$ 224,496</u></u>	<u><u>\$ 224,496</u></u>	<u><u>\$ 340,999</u></u>	<u><u>\$ 116,503</u></u>

# VILLAGE OF LEXINGTON, MICHIGAN

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL - CAPITAL EQUIPMENT FUND FOR THE YEAR ENDED JUNE 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
Interest	-	-	2,965	2,965
Total Revenues	-	-	2,965	2,965
<b>Expenditures:</b>				
Public Safety- Capital Outlay	84,000	-	-	-
Public Works- Capital Outlay	-	15,185	24,385	( 9,200)
Total Expenditures	84,000	15,185	24,385	( 9,200)
Excess of revenues under expenditures	( 84,000)	( 15,185)	( 21,420)	( 6,235)
<b>Other Financing Sources:</b>				
Transfers in	100,000	100,000	100,000	-
Sale of fixed assets	-	-	9,200	9,200
	100,000	100,000	109,200	9,200
Net change in Fund Balance	16,000	84,815	87,780	2,965
Fund Balance at beginning of year	49,024	49,024	49,024	-
Fund Balance at end of year	\$ 65,024	\$ 133,839	\$ 136,804	\$ 2,965

## **OTHER SUPPLEMENTARY INFORMATION**

# VILLAGE OF LEXINGTON, MICHIGAN

## COMBINING BALANCE SHEET NONMAJOR GOVERNMENTAL FUNDS JUNE 30, 2006

### Special Revenue Funds

	Major Street	Local Street	County Road	Cemetery
<b>ASSETS</b>				
Cash and cash equivalents	\$ 108,584	\$ 20,628	\$ 361,327	\$ 62,008
Investments	\$ -	\$ -	\$ -	\$ 18,800
Receivables -				
State	7,799	3,677	-	-
Accounts	-	-	-	75
Due from other funds	78,312	4,411	-	-
Prepaid expenditures and deposits	-	-	-	89,784
	<u>-</u>	<u>-</u>	<u>-</u>	<u>89,784</u>
Total Assets	<u>\$ 194,695</u>	<u>\$ 28,716</u>	<u>\$ 361,327</u>	<u>\$ 170,667</u>
<b>LIABILITIES AND FUND BALANCE</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 2,599	\$ 2,152	\$ 709	\$ 68,056
Accrued liabilities	-	-	-	238
Due to other funds	1,694	-	101	-
Due to component unit	-	-	-	3,590
Total Liabilities	<u>4,293</u>	<u>2,152</u>	<u>810</u>	<u>71,884</u>
<b>Fund Balance:</b>				
Reserved -				
Prepays	-	-	-	89,784
Unreserved -				
Undesignated	190,402	26,564	360,517	8,999
Total Fund Balance	<u>190,402</u>	<u>26,564</u>	<u>360,517</u>	<u>98,783</u>
Total Liabilities and Fund Balance	<u>\$ 194,695</u>	<u>\$ 28,716</u>	<u>\$ 361,327</u>	<u>\$ 170,667</u>

<u>Total</u>	
\$	552,547
\$	18,800
	11,476
	75
	82,723
	<u>89,784</u>
\$	<u><u>755,405</u></u>

\$	73,516
	238
	1,795
	<u>3,590</u>
	<u>79,139</u>

	89,784
	<u>586,482</u>
	<u>676,266</u>
\$	<u><u>755,405</u></u>

# VILLAGE OF LEXINGTON, MICHIGAN

## COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2006

	Special Revenue Funds			
	Major Street	Local Street	County Road	Cemetery
<b>Revenues:</b>				
Taxes	\$ -	\$ -	\$ 75,366	\$ 23,708
Intergovernmental -				
State	47,234	22,270	-	-
Charges for services				
Sale of lots / Internment fees	-	-	-	8,925
Interest	4,408	-	10,503	2,845
Other	-	3,797	-	-
	<u>51,642</u>	<u>26,067</u>	<u>85,869</u>	<u>35,478</u>
<b>Expenditures:</b>				
Current -				
General Government	-	-	-	27,347
Public Works	59,637	95,230	36,652	-
	<u>59,637</u>	<u>95,230</u>	<u>36,652</u>	<u>27,347</u>
Excess of revenues over (under) expenditures	<u>( 7,995)</u>	<u>( 69,163)</u>	<u>49,217</u>	<u>8,131</u>
<b>Other Financing Sources (Uses):</b>				
Transfers in	-	11,792	-	-
Transfers out	( 11,792)	-	-	-
Total Other Financing Sources (Uses)	<u>( 11,792)</u>	<u>11,792</u>	<u>-</u>	<u>-</u>
Net change in Fund Balances	( 19,787)	( 57,371)	49,217	8,131
Fund Balances at beginning of year	<u>210,189</u>	<u>83,935</u>	<u>311,300</u>	<u>90,652</u>
Fund Balances at end of year	<u>\$ 190,402</u>	<u>\$ 26,564</u>	<u>\$ 360,517</u>	<u>\$ 98,783</u>



<u>Total</u>	
\$	99,074
	69,504
	8,925
	17,756
	<u>3,797</u>
	<u>199,056</u>

	27,347
	<u>191,519</u>
	<u>218,866</u>

( 19,810)

	11,792
(	<u>11,792)</u>
	<u>-</u>

( 19,810)

696,076

\$ 676,266

# VILLAGE OF LEXINGTON, MICHIGAN

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL - NONMAJOR SPECIAL REVENUE FUNDS FOR THE YEAR ENDED JUNE 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>MAJOR STREET</b>				
<b>Revenues:</b>				
Intergovernmental -				
State	\$ 47,500	\$ 47,500	\$ 47,234	\$( 266)
Interest	2,500	2,500	4,408	1,908
Total Revenues	<u>50,000</u>	<u>50,000</u>	<u>51,642</u>	<u>1,642</u>
<b>Expenditures:</b>				
Public Works -				
Salaries	11,600	17,300	11,587	5,713
Administrative fees	5,934	5,934	4,723	1,211
Supplies	3,000	3,000	1,942	1,058
Equipment rental	8,751	13,051	9,322	3,729
Repairs and maintenance	500	500	991	( 491)
Purchased Services	33,000	33,000	9,040	23,960
Utilities	8,527	8,527	21,659	( 13,132)
Other	60	60	-	60
Capital Outlay	-	-	373	( 373)
Total Expenditures	<u>71,372</u>	<u>81,372</u>	<u>59,637</u>	<u>21,735</u>
Excess of revenues under expenditures	( 21,372)	( 31,372)	( 7,995)	23,377
<b>Other Financing Uses:</b>				
Transfers out	<u>-</u>	<u>-</u>	<u>( 11,792)</u>	<u>( 11,792)</u>
Net change in fund balance	( 21,372)	( 31,372)	( 19,787)	11,585
Fund Balance at beginning of year	<u>210,189</u>	<u>210,189</u>	<u>210,189</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 188,817</u>	<u>\$ 178,817</u>	<u>\$ 190,402</u>	<u>\$ 11,585</u>

Continued

# VILLAGE OF LEXINGTON, MICHIGAN

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL - NONMAJOR SPECIAL REVENUE FUNDS FOR THE YEAR ENDED JUNE 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>LOCAL STREET</b>				
<b>Revenues:</b>				
Intergovernmental -				
State	\$ 35,000	\$ 35,000	\$ 22,270	\$( 12,730)
Other	1,800	1,800	3,797	1,997
Total Revenues	<u>36,800</u>	<u>36,800</u>	<u>26,067</u>	<u>( 10,733)</u>
<b>Expenditures:</b>				
Public Works -				
Salaries	20,833	20,833	26,845	(6,012)
Administrative fees	4,944	4,944	2,227	2,717
Supplies	3,000	3,000	4,436	(1,436)
Equipment rental	16,369	16,369	20,844	( 4,475)
Purchase of Services	33,000	53,000	39,483	13,517
Other	48	48	405	(357)
Capital Outlay	-	-	990	(990)
Total Expenditures	<u>78,194</u>	<u>98,194</u>	<u>95,230</u>	<u>2,964</u>
Excess of revenues under expenditures	( 41,394)	( 61,394)	( 69,163)	( 7,769)
<b>Other Financing Sources:</b>				
Transfers in	<u>-</u>	<u>-</u>	<u>11,792</u>	<u>11,792</u>
Net change in Fund Balance	( 41,394)	( 61,394)	( 57,371)	4,023
Fund Balance at beginning of year	<u>83,935</u>	<u>83,935</u>	<u>83,935</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 42,541</u>	<u>\$ 22,541</u>	<u>\$ 26,564</u>	<u>\$ 4,023</u>

Continued

# VILLAGE OF LEXINGTON, MICHIGAN

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL - NONMAJOR SPECIAL REVENUE FUNDS FOR THE YEAR ENDED JUNE 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>COUNTY ROAD</b>				
<b>Revenues:</b>				
County road millage	\$ 71,760	\$ 71,760	\$ 75,366	\$ 3,606
Interest	4,100	4,100	10,503	6,403
Total Revenues	<u>75,860</u>	<u>75,860</u>	<u>85,869</u>	<u>10,009</u>
<b>Expenditures:</b>				
Public Works -				
Salaries	11,600	11,600	11,587	13
Administrative fees	7,874	7,874	7,873	1
Supplies	2,000	2,000	-	2,000
Equipment rental	8,751	8,751	8,668	83
Utilities	8,014	8,014	8,524	( 510)
Maintenance	500	500	-	500
Contracted services	25,000	25,000	-	25,000
Other	48	48	-	48
Total Expenditures	<u>63,787</u>	<u>63,787</u>	<u>36,652</u>	<u>27,135</u>
Net change in Fund Balance	12,073	12,073	49,217	37,144
Fund Balance at beginning of year	<u>311,300</u>	<u>311,300</u>	<u>311,300</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 323,373</u>	<u>\$ 323,373</u>	<u>\$ 360,517</u>	<u>\$ 37,144</u>

Continued

# VILLAGE OF LEXINGTON, MICHIGAN

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL - NONMAJOR SPECIAL REVENUE FUNDS FOR THE YEAR ENDED JUNE 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>CEMETERY</b>				
<b>Revenues:</b>				
Taxes	\$ 24,461	\$ 24,461	\$ 23,708	\$( 753)
Charges for services -			-	
Sale of lots / Internment fees	7,000	7,000	8,925	1,925
Other	1,500	1,500	2,845	1,345
Total Revenues	<u>32,961</u>	<u>32,961</u>	<u>35,478</u>	<u>2,517</u>
<b>Expenditures:</b>				
General Government -				
Salaries	14,020	14,020	10,300	3,720
Fringe benefits	649	649	746	( 97)
Administrative fees	4,656	4,656	4,656	-
Supplies	250	250	215	35
Equipment rental	6,623	6,623	2,797	3,826
Purchase of services	5,282	30,282	7,307	22,975
Repairs and Maintenance	500	500	70	430
Utilities	866	866	1,134	( 268)
Other	115	115	122	( 7)
Total Expenditures	<u>32,961</u>	<u>57,961</u>	<u>27,347</u>	<u>30,614</u>
Net change in Fund Balance	-	( 25,000)	8,131	33,131
Fund Balance at beginning of year	<u>90,652</u>	<u>90,652</u>	<u>90,652</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 90,652</u>	<u>\$ 65,652</u>	<u>\$ 98,783</u>	<u>\$ 33,131</u>

Concluded

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the President and Members  
of the Village Council  
Village of Lexington, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Lexington, Michigan as of and for the year ended June 30, 2006, which collectively comprise the Village's basic financial statements and have issued our report thereon dated August 29, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Village of Lexington, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Village of Lexington, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management, and the Council of the Village of Lexington, Michigan and is not intended to be and should not be used by anyone other than these specified parties.

  
Certified Public Accountants

August 29, 2006

## MANAGEMENT LETTER

To the President and Members  
of the Village Council  
Village of Lexington  
Lexington, Michigan

We have recently completed our audit of the financial statements of the Village of Lexington for the year ended June 30, 2006. As noted in our *Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*, we noted no matters involving the internal control over financial reporting and compliance and other matters, that we considered to be material weaknesses; however, we have the following recommendations for your consideration to enhance accounting and administrative controls:

### Controls over the Budgeting Process

As noted in the audited financial statements, some of the expenditures of the Village exceed the amount appropriated.

Michigan Public Act 621 of 1978 Sec. 18, as amended, provides that a Village shall adopt formal budgets for the General and Special Revenue Funds and shall not incur expenditures in excess of the amounts appropriated.

The Village has established procedures to detect such violations; however, there were instances where overages occurred.

Budget amendments should be made to cover any expenditures in excess of the amounts appropriated with all budget amendments approved by Village Council prior to the end of the fiscal year.

### Controls over Journal Entries

At the present time journal entries include a description for the entry and are numbered for control purposes. However, not all journal entries are required to be approved by a second individual.

Not having a procedure requiring that journal entries be approved allows for the possibility of inaccurate or fraudulent financial reporting.

We recommend that journal entries be approved by an individual that is able to analyze the accompanying information supporting the entry.

### **Controls over Investments**

Governmental Accounting Standards Boards Statement No. 40 requires additional risk disclosure in the notes to financial statements related to deposits and investments. Along with the risk disclosure, the Village's investment policy as it pertains to the risk disclosed must be mentioned. The type of risks required to be disclosed are custodial credit risk, concentration of credit risk and interest rate risk.

We recommend that the Village's investment policy be reviewed and consideration be made to using the specific terminology in GASB No. 40 to describe the deposits and investment risks considered when depositing and investing funds of the Village.

Examples should be available to assist in the wording of the policy.

### **Controls over IRS Compliance**

During the audit we noted that payments in lieu of health insurance have been made to employees without the Village having adopted a formal cafeteria plan.

When a taxable benefit (the payment of cash) is made in lieu of non taxable benefit (health insurance) a cafeteria plan should be adopted to prevent the possible taxability of the otherwise non taxable benefit (health insurance.)

Cafeteria plans are flexible and can be structured to fit the needs and requirements of the Village.

We recommend that you discuss the implementation of a plan with your attorney.

### **Controls over Utility Billing**

During the audit we noted a lack of segregation of duties in the utility billings system. Currently the same person handles the billings to customers, adjustments to customer accounts, and collection of the payments by customers. While no irregularities were noted, a lack of segregation between these functions predisposes the Village to unnecessary risks.

We understand that segregation of duties is difficult in a smaller office.

We recommend, however, that procedures be reviewed and if duties can not be segregated, other mitigating controls may be able to be implemented to reduce risk.

### **Controls over Computer Processing**

Part of a good financial internal control system is the protection of the access to software programs and data stored within the computer.

During the audit we noted that the access to the personal computers was protected by password, however, the passwords were not kept secret and were not periodically changed.

We recommend that formal password procedures be put in place to protect from unauthorized entry.

During the audit we also noted that backups are prepared nightly, however, the backups are not stored off premises and except for utility billing, the backups have not been tested to assure the data is readable.

We recommend that backups be stored off premises and the backups be tested periodically.



These conditions were considered in determining the nature, timing and extent of the audit tests applied in our audit of the June 30, 2006 financial statements. We have not considered internal control since the date of our report. It is always important to remember that management is responsible for the design and implementation of programs and controls to prevent and detect fraud.

This report is intended for the information of the management and Council of the Village of Lexington and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in cursive script, reading "Stewart Beausant Whipple".

August 29, 2006